

# Office and Investment Market 2015/2016

## Highest take-up since 2007 – Investment results at an 8-year high

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### Office Letting

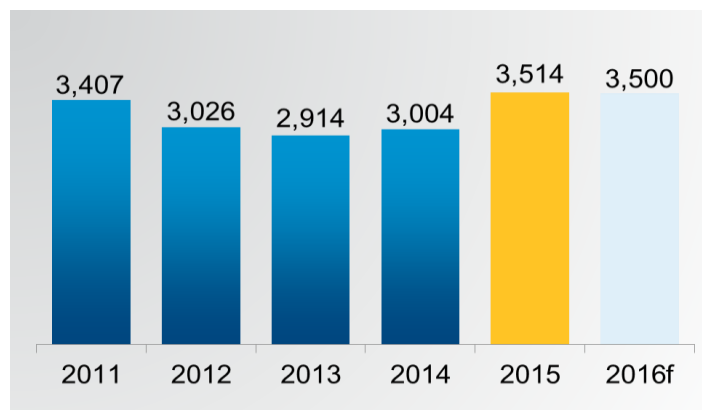
Germany's top seven office markets of Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart recorded the highest take-up results seen since 2007. Climbing to a total of 3,514,300 sqm, a solid 17% more office space was taken up in 2015 than in the previous year. An exceptionally lively Q4 with take-up of around 1,155,900 sqm contributed significantly to these above-average annual results. Q4 2006 is the only quarter in which users have shown more interest in leasing space.

Considerable increase in take-up in almost all locations

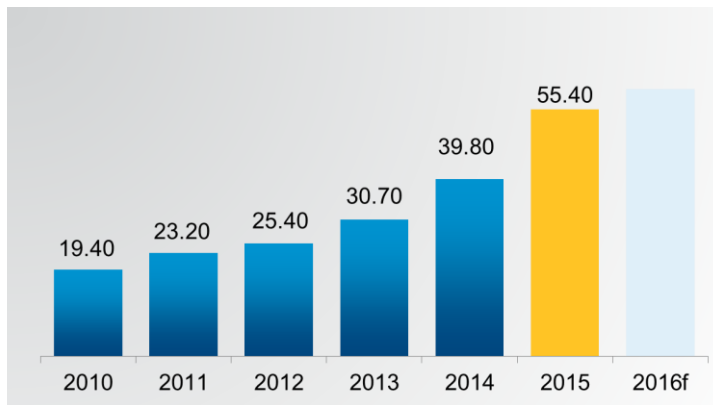
More office space was taken up yoy in 2015 in almost all locations. The increase posted in Düsseldorf, however, deserves special mention with total take-up of 391,000 sqm topping previous year results by more than 62%. These impressive results can partially be attributed to leases signed by Deutsche Telekom, L'Oréal, trivago and Handelsblatt totaling at over 80,000 sqm.

Munich also posted a considerable increase in take-up, recording 756,700 sqm and surpassing 2014 results by almost 22%. Significant leases included those signed for space at Highlight Towers, where Unify leased around 8,600 sqm and IBM Watson signed a lease for almost 15,000 sqm.

Take-up of Office Space in the Top Seven Cities (in 1,000 m<sup>2</sup>)



Commercial Transaction Volume in Germany (in billions of euros)



Berlin posted similar results. Users took up around 20% more space in 2015. Take-up results of slightly more than 843,000 sqm put the German capital ahead of the other German office markets. The largest deals of the year included 47,000 sqm leased by Allianz at a project development just before the end of the year and two leases signed by Zalando for 28,700 sqm and 13,700 sqm.

Take-up in Cologne rose by slightly more than 35,000 sqm by the end of the year, reflecting an increase of 11.5%. Tenants were particularly interested in the city center, which accounted for a share of 43%. Large-scale leases were signed by Labormedizin Köln (16,000 sqm) and the Malteser Hilfsdienst aid organization (14,000 sqm).

Frankfurt also topped previous year results by around 6%. The owner-occupier deal signed by Deutsche Vermögensberatung in Q1 was the city's only lease signed for more than 10,000 sqm in 2015. The yoy increase can be attributed to lively activity in the space segment of between 2,000 sqm and 10,000 sqm.

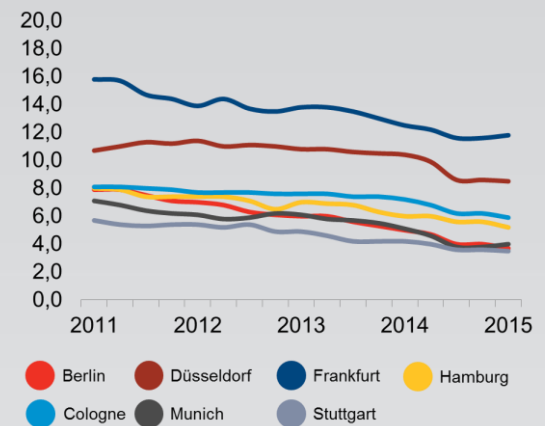
Although the increase registered in Stuttgart was rather modest at just over 4%, it was enough to create a new take-up record for the city because of the high take-up activity posted in 2014. These above-average results can primarily be attributed to large-scale leases signed by businesses from the manufacturing industry, which accounted for almost half of total take-up. The lease signed by Porsche for around 30,000 sqm at the end of the year is an excellent example.

Hamburg posted 540,000 sqm in take-up, a yoy increase of roughly 3%. The space segment of 5,000 sqm and up accounted for almost one-third of the city's total take-up. The public sector was the most active industry in Hamburg with the City of Hamburg's owner-occupier purchase of the Axel Springer Haus (more than 32,000 sqm) for the Hamburg-Mitte Administration Office and the city's decision to lease around 20,000 sqm in City South submarket for its tax offices.

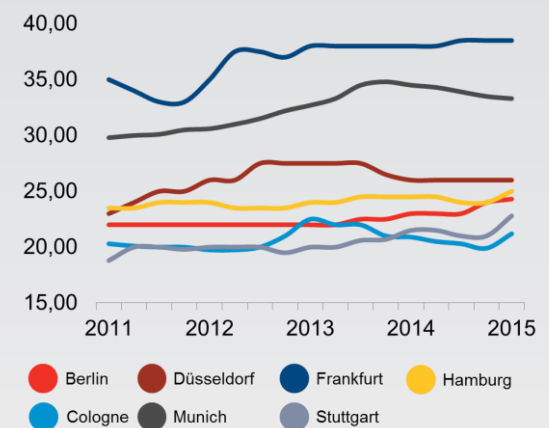
### Vacancy continues to drop

Office vacancy fell over the past 12 months by around 920,000 sqm to 5.044 million sqm at the end of 2015 in Germany's Big 7. This translates into an average vacancy rate of 6.2%. Vacancy has dropped by 3.67 million sqm since late 2010. The lowest vacancy rate was recorded in Stuttgart with only 3.5% of total office space currently vacant. Berlin came in a close second with 3.7% followed by Munich with 4.0%. Vacancy in Hamburg fell by slightly more than 100,000 sqm within one year, resulting in a vacancy rate of 5.2%. Although Cologne (5.9%), Düsseldorf (8.5%) and Frankfurt (11.8%) recorded higher rates, these three cities saw a decrease in vacancy in the last 12 months of more than 325,000 sqm combined.

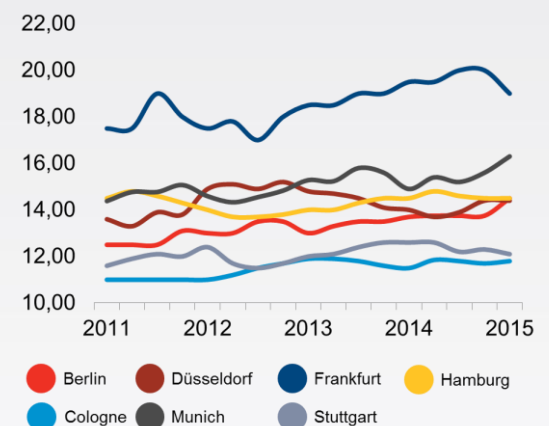
### Comparison of Vacancy Rates (in %)



### Comparison of Prime Rents (in €/m²)



### Comparison of Average Rents (in €/m²)



## Prime rents up in most locations, average rents paint a varied picture

With the exception of Munich, prime rents in top locations either exceeded or matched previous year results. Although prime rent in the Bavarian capital dropped 3.5% to €33.30 per sqm due to the limited availability of prime office space, average rent increased considerably by more than 9% to €16.30 per sqm. Stuttgart and Frankfurt, however, experienced a different trend. Prime rent in Stuttgart increased to €22.80 per sqm while average rent dropped to €12.10 per sqm. Frankfurt recorded an increase in prime rent to €38.50 per sqm with average rent falling to €19.00 per sqm. Prime rent in Düsseldorf remained unchanged at €26.00 per sqm with average rent up to €14.40 per sqm. Average rent in Hamburg remained stable at €14.50 per sqm while prime rent rose to €25.00 per sqm. Berlin and Cologne posted an increase in prime rent to €24.30 per sqm (Berlin) and €21.20 per sqm (Cologne) as well as in average rent to €14.50 per sqm and €11.80 per sqm, respectively.

## Outlook

2015 was characterized by lively activity on the German office leasing market. The market really took off during the last quarter, recording the second-highest take-up results we have seen in the past 15 years. This led to significant drops in vacancy and increasing prime rents in almost all locations. Even though supply in some cities did not drop further by the end of the year, we can expect to continue to see low vacancy rates in 2016 thanks to high pre-leasing activity in new-build projects. That means that users are going to have to be willing to compromise, particularly in the space segment of 5,000 sqm and up. Project developments and revitalization projects will be able to benefit from this situation as long as financing conditions remain favorable.



## Investment

The German market appears to be benefiting all the more as a safe haven amidst the current situation in Europe. According to the latest data provided by real estate consulting firm Colliers International, transaction volume on Germany's commercial investment market came to around €55.4 bn for 2015, the highest result recorded in the last 8 years.

Investment market is benefiting from portfolio and large scale transactions

Until mid-year the majority of portfolio deals involved retail assets with portfolios featuring logistics and office usage types entering the mix in the second half of the year. In addition to alstria office REIT-AG's takeover of Deutsche Office, the sale of the Potsdamer Platz mixed-use property complex to North American investor Brookfield Properties for around €1.3 bn was one of the largest deals to transpire during the second half of the year. Portfolio deals accounted for a total of 38% of capital invested, increasing their share of total transaction volume by 7 percentage points yoy. The sale of the pan-European Immofinanz portfolio to Blackstone for roughly €540 m was the largest industrial and logistics deal to change hands. The portfolio included 24 German logistics properties. Commerz-Real sold a logistics portfolio containing three core assets at the Frankfurt and Hanover airports to Deutsche Bank's open-ended real estate fund Grundbesitz Europa.

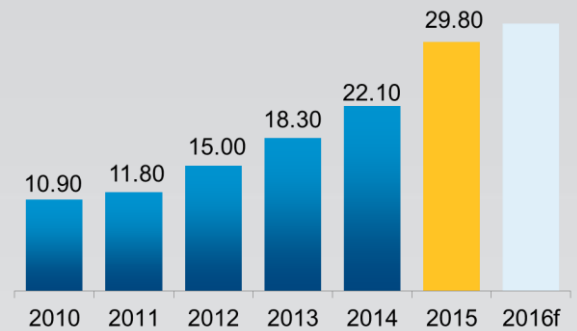
Portfolio deals also give both established investors and newcomers the advantage of being able to tie up a considerable amount of capital in a single transaction, something that has become necessary in light of current trends on the capital market and the ongoing increase in liquidity being experienced by many institutional investors.

### International investors with key role in market activity

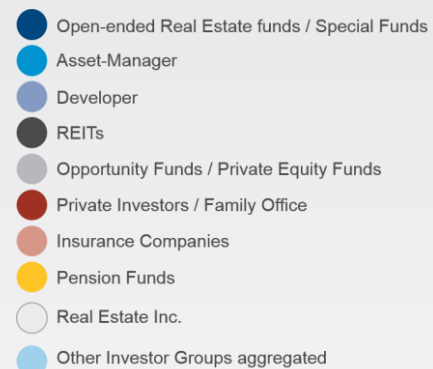
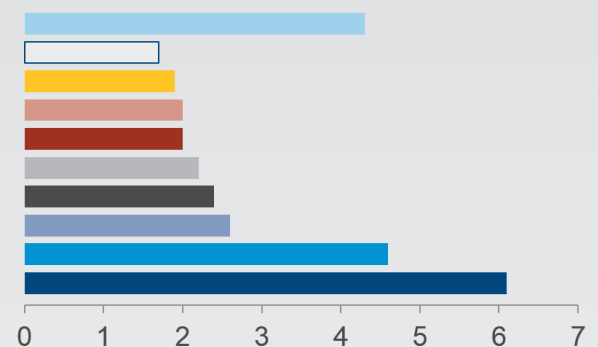
Foreign capital is increasingly finding its way onto German commercial real estate market. Almost half of the money invested came from investors located outside of Germany. Germany's strong economy combined with increasing internationalization of the commercial real estate market in the last few years have enabled foreign investors to enter the market.

Most of the international capital invested came from the US (almost €8.5 bn), reflecting around one-third of the total amount originating from foreign investors. Investors from the UK followed with €5.5 bn just ahead of French investors with €3.7 bn. Investors from Asia purchased assets worth €1.9 bn, down around 3% from 2014.

### Commercial Transaction Volume in the Top 7 Cities (in billions of euros)



### Transaction Volume according to Buyer Groups (in millions of euros) Q1-Q4 2015



### Development of the Gross Initial Yield

	Office	Retail	Industrial & Logistics
Berlin	↓	—	—
Düsseldorf	↓	↓	↓
Frankfurt/M.	↓	↓	↓
Cologne	↓	—	↓
Hamburg	↓	↓	↓
Munich	↓	↓	↓
Stuttgart	↓	↓	↓

International investors continue to focus on core locations in major cities with more and more of them, however, also looking to secondary and tertiary locations. Investors from France and the US in particular had locations such as Nuremberg, Bremen, Bochum, Leipzig and Hanover on their shopping list.” Although the Big 7 accounted for the majority of transaction volume at €30 bn, investors’ thirst for higher yields caused them to seek out other locations as well.

### Office buildings remain investor favorite

Spurred on by the favorable signs on the office leasing market, this asset class proved to be the investor favorite. €24.7 bn, or 44% of total transaction volume, was invested in office buildings followed by retail assets, which changed hands for a total of €16 bn (29%). Hotel assets continued to be popular as well as can be seen in the increased sales activity involving hotel portfolios. Hotels accounted for more than 8% of total transaction volume, or €4.6 bn, half of which can be attributed to portfolio deals. This asset type was followed by industrial and logistics properties with a market share of slightly more than 7%, or €4 bn.

### All top locations with increases in investment volume, some substantial

Germany’s major cities continue to be in high demand. Transaction volume rose considerably this past year in all top locations. Berlin particularly stands out with a transaction volume of €8.1 bn, the highest results ever recorded for the city. The fact that the city’s transaction volume doubled yoy can especially be attributed to high-volume deals such as the sale of the Potsdamer Platz property complex, Boulevard Berlin and Stettiner Carrés for more than €200 m.

An impressive end-of-the-year rally also played a key role in the considerable increase recorded in Stuttgart, with transaction volume skyrocketing 70% yoy to €1.7 bn. Four high-volume deals, including the sale of Zeppelin Carré, alone accounted for more than €500 m of total transaction volume in Stuttgart.

Frankfurt and Munich recorded similar results. Despite strong previous year activity, the cities saw an increase in property sales of 14% and 13%, respectively. That amounts to a transaction volume of €5.7 bn for Frankfurt and around €5.9 bn for Munich. While high-volume high-rise deals, including Eurotower and Trianon, dominated the Frankfurt market, Munich’s results can primarily be attributed to a large number of deals ranging between €50 m and €100 m in addition to a few high-volume transactions. More than 20 deals were recorded in this segment in 2015 including Haus der Kommunikation in the city center purchased by Invesco and Swiss Life’s purchase of Bavaria Tower’s planned hotel new-build, which was let to the Ramada Group.

Activity in Hamburg remained lively throughout 2015. Portfolio deals and transactions in the 9-figure range, such as the sale of the Berliner Tor Center to the Zurich Group for €270 m, pushed transaction volume up 10% to €4.0 bn. In addition to focusing on core locations, investors also set their sights on secondary locations in Hamburg as well as project developments.

Transaction volume in Düsseldorf was recorded at €2.55 bn at the end of the year, reflecting a yoy increase of 30%. Retail deals accounted for the lion’s share of transaction volume. Five of the ten highest-volume transactions involved retail assets, e.g., the Sevens shopping mall, which was purchased by CBRE Global Investors.

Cologne, with its more than one million inhabitants, was also high on investor agendas. The city’s transaction volume surpassed 2014 results by 47%, totaling at €1.94 bn. The most spectacular deals included the sale of the Lanxess Arena, the adjoining residential building and other ancillary buildings to two Asian investors for roughly €440 m.

### Outlook: Transaction volume expected to remain high in 2016

The lack of secure investment alternatives will continue to dictate market activity in 2016. Investors will continue to increase their focus on real estate assets and are anticipating favorable developments on the leasing market, making ongoing lively activity on the investment market a realistic expectation.

Although investors will continue to focus on top locations, in which holding periods have become even shorter, we have also been seeing a tangible increase in investment activity in areas other than top cities and core locations. This trend will continue in 2016. Other investors are taking advantage of the excellent market conditions and getting ready to sell larger portfolios, making a further increase in transaction volume in the €60 bn range plausible assuming supply remains sufficient.

## Office Letting and Investment Market Germany Q1-Q4 2015

Key Facts								
	Top 7	BERLIN	DÜSSELDORF	FRANKFURT	HAMBURG	COLOGNE	MUNICH	STUTT GART
<b>Office Leasing Market</b>								
Take-up 2015 in m <sup>2</sup>	3,514,300	843,000	391,000	389,100	540,000	304,000	756,700	290,500
Take-up 2014 in m <sup>2</sup>	3,003,500	701,300	241,000	367,500	525,000	269,000	620,900	278,900
Change y-o-y	+ 17.0 %	20.2 %	62.2 %	5.9 %	2.8 %	13.0 %	21.9 %	4.2 %
Prime rent 2015 in €/m <sup>2</sup>		24.30	26.00	38.50	25.00	21.20	33.30	22.80
Prime rent 2014 in €/m <sup>2</sup>		23.00	26.00	38.00	24.50	20.90	34.50	21.50
Change y-o-y		5.7 %	0.0 %	1.3 %	2.0 %	1.4 %	-3.5 %	6.0 %
Average rent 2015 in €/m <sup>2</sup>		14.50	14.40	19.00	14.50	11.80	16.30	12.10
Average rent 2014 in €/m <sup>2</sup>		13.70	14.00	19.50	14.50	11.50	14.90	12.60
Change y-o-y		5.8 %	2.9 %	-2.6 %	0.0 %	2.6 %	9.4 %	-4.0 %
Vacancy 2015 in m <sup>2</sup>		5,043,700	684,500	650,600	1,358,000	698,100	460,000	873,612
Vacancy 2014 in m <sup>2</sup>	5,989,000	900,000	788,400	1,454,500	798,400	552,000	1,156,500	314,200
Vacancy Rate	6.2%	3.7 %	8.5 %	11.8 %	5.2 %	5.9 %	3.8 %	3.5 %
	Germany	BERLIN	DÜSSELDORF	FRANKFURT	HAMBURG	COLOGNE	MUNICH	STUTT GART
<b>Commercial Investment Market</b>								
Transaction volume in millions of euros 2015	55,400	8,100	2,550	5,690	4,000	1,940	5,850	1,700
Transaction volume in millions of euros, 2014	39,800	4,000	1,950	5,000	3,650	1,320	5,200	1,000
Change y-o-y	+39 %	+103 %	+31 %	+14 %	+10 %	+47 %	+13 %	+70 %
Largest group of investors	Open-ended real estate funds/Special funds 21%	Asset / Fund manager 28%	Open-ended real estate funds/Special funds 28%	Pension funds 16%	Open-ended real estate funds/Special funds 25%	Asset / Fund manager 25%	Open-ended real estate funds/Special funds 22%	Open-ended real estate funds/Special funds 55%
Largest group of sellers	Open-ended real estate funds/Special funds 18%	Open-ended real estate funds/Special funds 28%	Corporates/owner-occupiers 22%	Banks 19%	Open-ended real estate funds/Special funds 32%	Geschlossene Immobilienfonds 36%	Projektentwickler/Bau-träger 22%	Opportunity funds/ Private equity funds 45%
Most important type of real estate	Office 44%	Office 59%	Office 50%	Office 83%	Office 66%	Office 66%	Office 66%	Office 43%
Prime yield office		4.00	4.75	4.50	4.00	5.00	3.75	4.30
Prime yield retail		4.00	4.10	4.05	4.00	4.20	3.00	3.90
Prime yield industrial		6.55	5.90	6.00	6.00	6.00	5.90	6.00

Source: Colliers International, Grossmann & Berger (Hamburg), Larbig & Mortag (Köln)

# 502 offices in 67 countries on 6 continents

United States: **140**

Canada: **31**

Latin America: **24**

Asia Pacific: **199**

EMEA: **108**

**€ 1.75**

billion

In annual revenue

**€ 75**

billion in transaction volume with more than  
80,000 investment and leasing deals

**160**

Million square meter  
under management

**16,300**

professionals  
worldwide

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